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January 26, 2006

**Ex Parte**

Marlene H. Dortch  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

**Re: In the Matter of Petition of SBC Communications, Inc. for Forbearance and Waiver Under 47 U.S.C. Section 160(c) for the Application of the Five-Year Recovery Period for Local Number Portability Costs Under 47 C.F.R. Section 52.33(a)(1), CC Docket No. 95-116**

Dear Ms. Dortch:

On January 25, 2006, Amy Rosenthal, Richard Fouke and the undersigned of Verizon, met with Deena Shetler, Jay Atkinson, Judy Nitsche, Marvin Sacks, and Christopher Barnekov of the Wireline Competition Bureau to discuss Verizon's support of the above-referenced petition. Verizon urged the Commission to grant the petition and explained the facts surrounding Verizon's own under recovery of LNP costs. The attached handout was used as a basis for discussion in the meeting.

Sincerely,

A handwritten signature in black ink that reads "Donna Epps". The signature is written in a cursive, flowing style.

Attachment



## *Local Number Portability Cost Recovery*

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*January 25, 2006*

## *Local Number Portability and the 1996 Act*



- ♦ In the Communications Act of 1996, Congress directed the Commission to establish local number portability such that end users could change carriers without changing their phone numbers. **47 U.S.C. § 251(b)(2).**
- ♦ Congress mandated that “the costs of establishing . . . . number portability shall be borne by all telecommunications carriers on a *competitively neutral* basis.” **47 U.S.C. § 251(e)(2) (emphasis added).**

## *The Dual Cost Recovery System Under The Third Report & Order*



- ♦ **The Commission established a dual system for carriers to recover carrier-specific costs directly related to establishing number portability, such as OSS enhancements, SS7 links, and software for end offices and tandem switches.**
  - Most carriers were permitted to recover their carrier-specific costs “in any lawful manner.”
  - By contrast, incumbent local exchange carriers – which bore the majority of the costs – could recover their costs only through levelized, federally tariffed monthly end-user charges.

# *The Dual Cost Recovery System*

## *Under The Third Report & Order*



- ♦ **ILECs calculated their total carrier-specific costs associated with implementing LNP.**
- ♦ **ILECs forecast their total LNP chargeable access lines five years into the future, in order to determine a monthly end-user charge to recover their carrier-specific LNP costs within five years.**
  - “Chargeable” access lines were limited to only those access lines in areas where local number portability was available to customers.
  - “Chargeable” access lines excluded Lifelines and company official lines.
  - PBX trunks counted as nine “chargeable” lines, and PRIs counted as five “chargeable” lines.

## *Verizon's Tariffed End-User Charges*



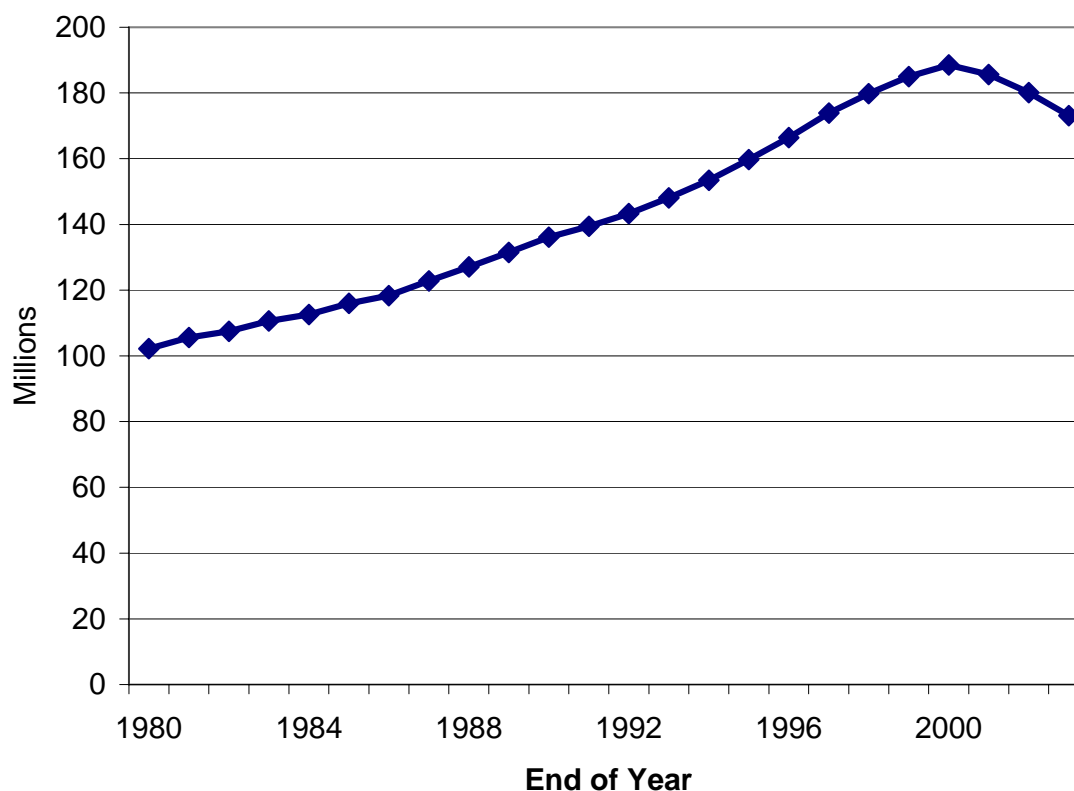
- ♦ **Pursuant to the ILEC cost-recovery scheme, Verizon submitted tariff plans in early 1999.**
  - Verizon identified the amounts and causes of its expected carrier-specific LNP-related expenses to be recovered.
  - In order to determine the appropriate monthly charge, Verizon forecast the total number of “chargeable” access lines in areas where LNP was expected to be available.
- ♦ **The Commission authorized Verizon to recover a total of approximately \$1.082 billion in allowed LNP costs (as adjusted to reflect sold lines).**
- ♦ **Based on Verizon's forecasts of its total chargeable access lines, the Commission approved end-user charges of \$0.36 per month in the former GTE territories and \$0.23 per month in the former Bell Atlantic territories.**

# *ILECs Experienced Substantial Access Line Declines During The Recovery Period*



## **ILEC Local Loops, 1980 - 2003**

Source: FCC's Trends in Telephone Service, April 2005, Table 7-1



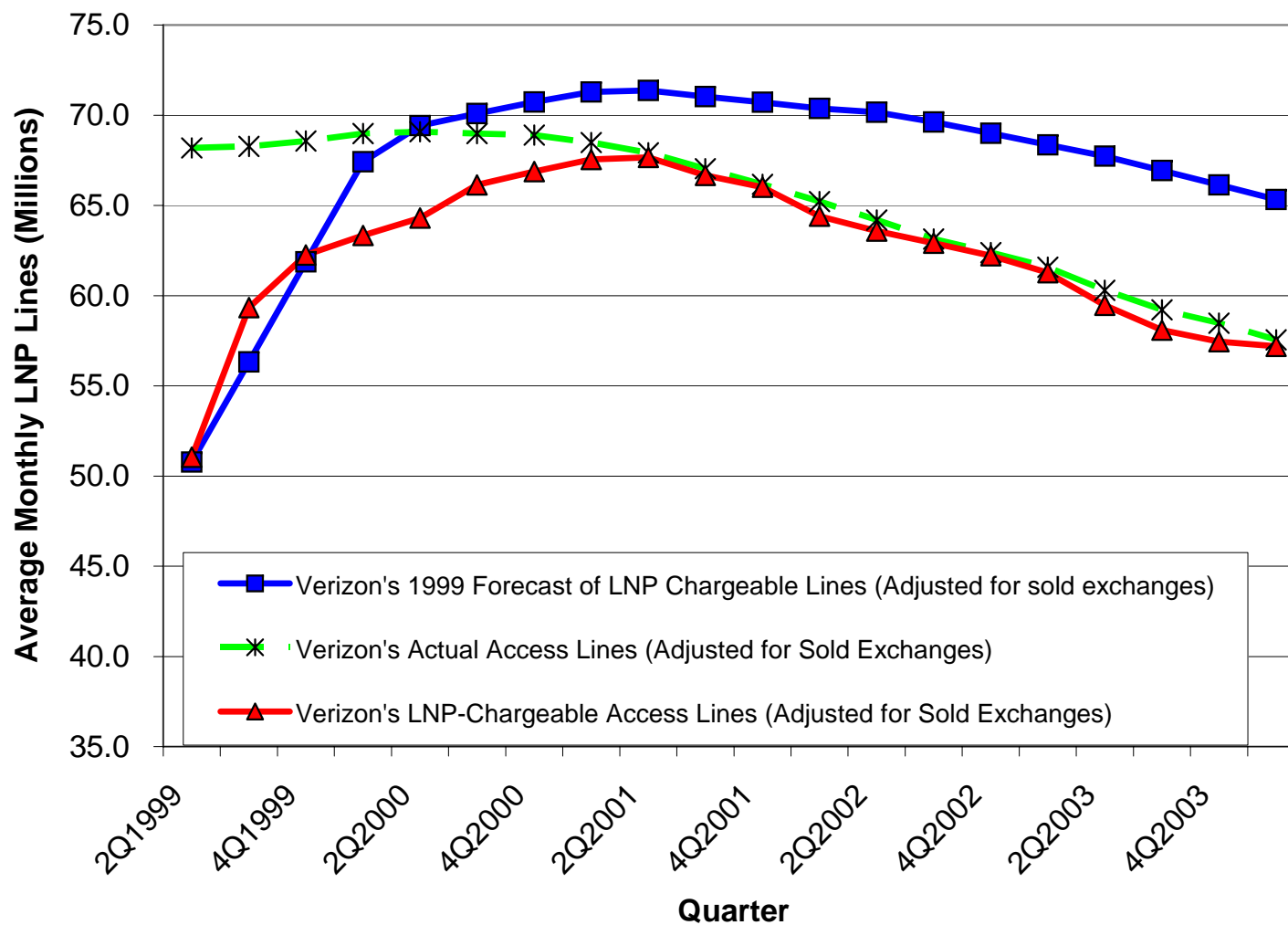
- ♦ Between 1980 and 2000, ILEC loops grew an average of 3% per year.
- ♦ Between 2000 and 2003, ILEC local loops declined 8%.

## *Verizon Experienced Substantial Access Line Declines During The Recovery Period*



- ♦ **Like many other ILECs, during the five-year recovery period, Verizon experienced unprecedented and unforeseen declines in access lines.**
  - Verizon's end-user charges were based on a forecasted decline in chargeable access lines of approximately 5% from 2000 to 2003.
  - In reality, Verizon's chargeable access lines declined 13% during that period, due to:
    - Overall decline of all local loops greater than anticipated (loss of 8%)
    - Change in mix of lines:
      - PBX trunks (9 LNP surcharges per trunk) declined 35%
      - Lifelines (non chargeable) increased 13%
  - Verizon's net access line loss has been adjusted to reflect exchange sales that occurred since Verizon's tariff filing in 1999.

# *Verizon's Forecasted Chargeable Lines Exceeded Verizon's Actual Chargeable Lines*



## *Verizon's Recovery Of LNP Costs*



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- ♦ **Verizon's LNP recovery shortfall, due to declining chargeable access lines, is approximately \$100 million.**
  - ♦ **A reasonable end-user surcharge, imposed for a relatively brief period, would enable Verizon to recover its shortfall without imposing an undue burden on consumers.**
    - \$0.21 charge per access line for 10 months
    - \$0.17 charge per access line for 12 months

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- ♦ **The Commission should grant SBC's (now AT&T) petition for forbearance or its petition for waiver.**
  - ♦ **The Commission should invite AT&T, Verizon, and other similarly-situated ILECs to present tariff plans for recovery of LNP shortfalls due to unforeseen losses in access lines.**
  - ♦ **The Commission should approve tariff plans that will enable ILECs to recover their full authorized LNP costs through reasonable end-user surcharges.**